1999

ANNUAL REPORT

SGM CANADA

SGI CANADA 1999 Annual Report
Committed to Saskatchewan's Independent Brokers

INNOVATIVE. DEDICATED. RELIABLE. KNOWLEDGEABLE. These are just a few of the words commonly used to describe Saskatchewan's network of independent brokers. Over the years, SGI CANADA has come to depend on this network to deliver our products in a secure, professional and customer-oriented method to Saskatchewan residents.

Since SGI CANADA appointed its first broker on May 17, 1945, we have become a strong, stable and reputable company. By the end of our first year in business, the company appointed 150 brokers. Currently, there are nearly 350 SGI CANADA brokers.

Although the Corporation has experienced many changes, our goals remain the same: to provide quality products at affordable rates, to be involved in the communities we do business in and to provide top-quality service for our customers. And it is through our system of independent brokers that we are able to attain these goals.

We wish to take this opportunity to recognize and thank Saskatchewan's independent brokers for their valuable contributions to the Corporation's success over the past 55 years. Without their support, SGI CANADA would not have developed into the trusted name it is today.

100-05053/

Our VISION

As a Saskatchewan based insurance company we will set the industry standard for being highly valued by our customers

Our VALUES

Integrity

Conducting ourselves with honesty, trust and fairness

- leading by example and being accountable for our actions
- following through on commitments
- providing honest, timely feedback
- explaining why a decision is taken
- giving credit to those who contribute to our success
- providing information openly without breaching confidentiality
- maintaining the privacy of personal data

Caring

Acting with empathy, courtesy and respect

- acting in a manner that preserves the dignity of others
- valuing and actively supporting diversity
- acknowledging and validating the feelings of others
- actively seeking and listening to differing points of view
- responding to individual differences

Innovation

Implementing creative solutions to achieve our vision

- seeking solutions that recognize individual circumstances
- challenging the status quo for positive change
- pursuing alternatives which lead to business improvements
- continuously working to revitalize products and services
- preparing for the needs of the future

- While SGI CANADA recorded its 14th consecutive year of profitability in 1999, both underwriting results and investment earnings were significantly lower in 1999 as compared to 1998. Increased claim costs for storm and fire-related claims and unreported claims from prior years contributed to reduced underwriting results. Investment earnings were lower primarily due to lower gains on the sale of bonds.

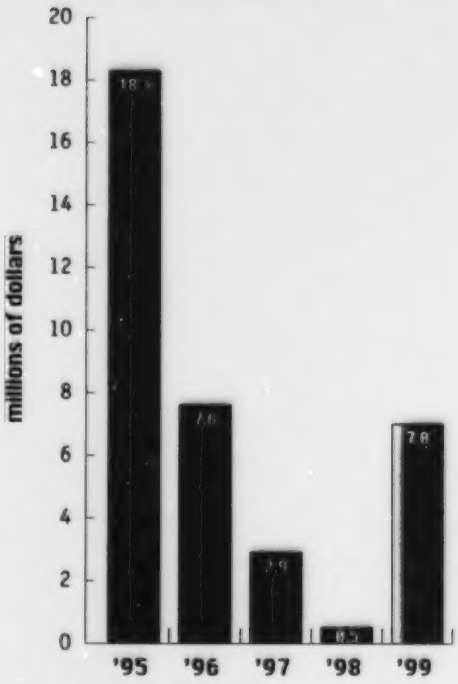
- The Corporation experienced a return on equity in 1999 of 9%, as compared to 28% in 1998. Higher claim costs and lower investment earnings are largely responsible for the decrease.

- SGI CANADA had a loss ratio in 1999 of 68%, a considerable increase from the loss ratio of 59% in 1998. This factor contributed to the increase in the Corporation's combined ratio of 106%, which is 8% higher than 1998's ratio of 98%. A combined ratio of less than 100% results in an underwriting profit.

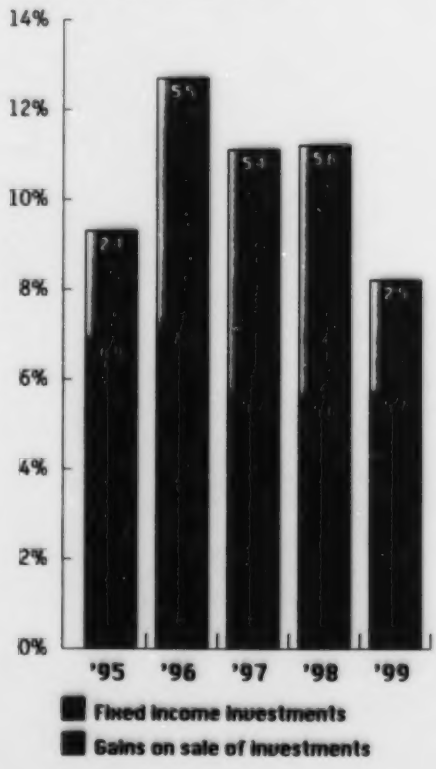
- The strong investment earnings the insurance industry has been realizing have been decreasing over the last few years. The Corporation recorded investment earnings in 1999 of $20.5 million - $7.9 million less than in 1998. The decrease is largely due to lower gains realized on the sale of investments, which were $7.7 million less than in 1998.

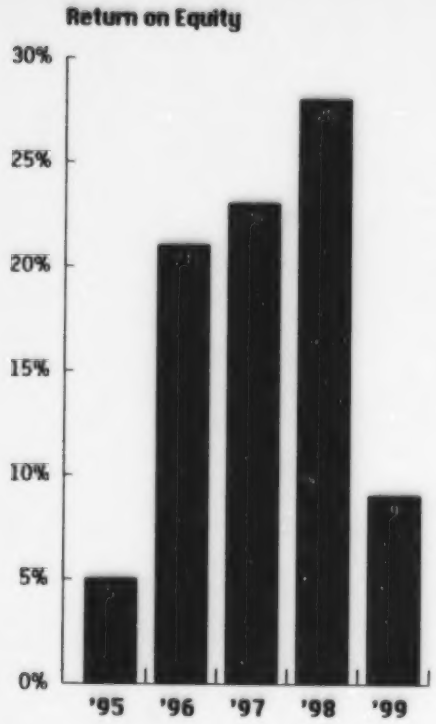
- Consolidated claims incurred were $112.0 million in 1999, a $16.6 million increase over 1998. Storm claim costs in 1999 of $7.0 were up considerably over last year's $0.5 million. A rise in costs related to fire claims from personal, commercial and agriculture claims, as well as unreported claims, significantly impacted claim costs for 1999.

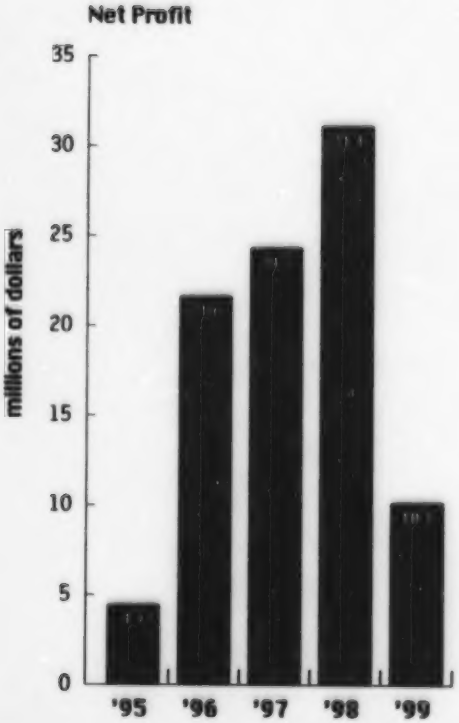
Storm Claims Incurred



Return on Investments







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Regina, Saskatchewan
March, 2000

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province
of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 1999, including the financial statements in the form required by the Treasury Board and in accordance with the Saskatchewan Government Insurance Act.

I have the honour to be, Madam,

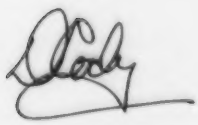
Your obedient Servant,

John T. Nilson

Honourable John T. Nilson, Q.C.
Minister Responsible for Crown Investments Corporation

Thanks to the unwavering commitment of staff and brokers, SGI CANADA experienced its 14th consecutive year of profitability – quite a feat in such a competitive industry. For more than 50 years, Saskatchewan people have come to depend on SGI CANADA employees and our network of independent brokers to be there when they need us most. I would like to thank the Board of Directors for their ongoing guidance, which will continue to steer us on the right course in the years ahead.

SGI CANADA has earned a reputation for providing excellent customer service and superior products at competitive prices. As we prepare today for the challenges of the future, I am certain this tradition of excellence will continue in the years to come.



Donald W. Cody
Chair

Margaret Anderson
Systems

Cheryl Barber
Human Resources

Earl Cameron
Claims

Alan Cockman
Auto Fund

John Doble
Finance and Administration

Randy Heise
Underwriting

Doug Campbell
Claims

Anna Lapierre
Auto Fund

Ken Lerner
Legal

Bob Lundy
Claims

Maureen MacCuish
Communications

Gerry Marsden
Reinsurance

Bernadette McIntyre
Auto Fund

Arun Patel
Salvage

Jim Roberts
Commercial Lines

Lorne Whippler
Personal Lines

Sherry Wolf
Claims

Standing (left to right):

P. James Mills
Insurance Broker, Mayor of Elrose, Sask.

Larry Fogg
President and CEO of SGI, Regina, Sask.

Dana C. Stutsky
Insurance adjuster, Saskatoon, Sask.

J. Walter Bardua
Vice Chair, retired insurance professional, Nanaimo, B.C.

Sitting (left to right):

Donald W. Cody
Chair, Mayor of Prince Albert, Sask.

Nancy E. Hopkins
Lawyer, Saskatoon, Sask.

Joan F. D. Baldwin
Doctor, Regina, Sask.

William J. A. Heidt
Business owner, Kelowna, B.C.

Missing:

Joan D. Bellegarde
Director of Operations, Touchwood File Hills, Qu'Appelle Tribal Council, Fort Qu'Appelle, Sask.

SGI CANADA concluded the century on a positive note, marking our 14th consecutive year of profitability. The company earned a profit of $10.1 million, which is good news, although significantly less than last year's profit of $31.1 million. This can be attributed to 1999 being much more of a normal year in terms of weather conditions. However, claims were $16.6 million more than 1998 and underwriting losses were $10.3 million.

Storm and fire claims were up in number and cost in 1999 as compared to 1998, but protecting Saskatchewan residents in the event of such disasters is our business, and our customers rely on us to be there when they need us. The favourable weather conditions and a low number of claims in 1998 did not make us complacent when dealing with situations that presented themselves in 1999.

From the fire that destroyed the skating and curling rink in Whitewood to the hailstorm that caused significant damage to property and vehicles in Emerald Park, SGI CANADA stood by its commitment to providing reliable service to the people of Saskatchewan.

Of course we couldn't do it without the cooperation of independent brokers. Their commitment is an integral part of our first-rate SGI CANADA team. With our team of brokers and employees, SGI CANADA has earned a reputation in the insurance industry as a top-notch service provider. It's no wonder the people of Saskatchewan have associated SGI CANADA with superior protection for more than 50 years.

Our independent broker system allows us to provide affordable and reliable protection to the people of Saskatchewan, a tradition we plan to continue into 2000 and beyond. SGI CANADA is committed to the independent broker as our sole method of distribution of our products, and we will continue that commitment into the future. While the Canadian government has placed a five-year moratorium on the decision regarding the entry of banks into the insurance industry, SGI CANADA stands behind the independent broker network in opposing recommendations included in the MacKay Report.

The issue that was foremost on people's minds in 1999, not only in Saskatchewan but also around the world, was the effect of the Year 2000 on technology. We are pleased to report that SGI experienced no problems as a result of the transition into 2000. SGI CANADA was well prepared to deal with any problems had they arisen. Our Year 2000 Committee started to prepare as early as 1992, identifying concerns in a number of areas, and taking necessary precautions - equipment was replaced, software was upgraded and staff were trained to deal with emergencies.

Technology is an important underwriting, administrative and marketing tool for SGI CANADA and plays a role in much of what we do. SGI CANADA takes pride in its development and innovation when it comes to technology, and rightfully so. With our latest projects, including GIS, Broker Interface and direct bill, we are confident we will continue to provide superior service to our brokers and their clients.

Investing in our province is an important aspect of business for SGI CANADA. We've witnessed growth of the Aboriginal community in Saskatchewan, and through a mutual exchange of information, we aim to meet their insurance needs. In learning what types of coverage is required by those living on reserves, we've made changes to our Tenant Pak product to better suit their needs.

We also aim to contribute to the economic growth and development of the province by investing in Aboriginal communities. We've assisted in the establishment of on-reserve brokerages by providing the necessary information and training to those interested in working in the insurance industry. This has resulted in new jobs and a more diverse economy for these areas. In the past five years, we've contributed to the establishment of two on-reserve brokerages, and we hope to assist more communities who choose to follow this path.

In our efforts to encourage more First Nations to join the insurance industry, we are also working to share information about SGI CANADA job opportunities with the entire province by sending job postings to Aboriginal communities. We strive to provide fair access to our job opportunities to all of Saskatchewan.

Providing a high level of service to the entire province has always been one of our goals. In recent years, it has come to our attention that we could be doing more work in this area with respect to the Aboriginal community. SGI CANADA has made efforts to accommodate this segment of the population. In 1998 we developed *Safety, Security & SGI* - a newsletter designed specifically for Aboriginal people. Since releasing our first issue in January 1999, we have received positive feedback, and we look forward to providing more information on safety and insurance issues to this community through the newsletter in 2000.

Our commitment to Saskatchewan communities is as strong as ever, as we take on new initiatives and maintain projects that were established in previous years. This past year saw a strengthening of working relationships between SGI and independent brokers through our annual child restraint safety clinics held across the province last summer. Some members of the Independent Brokers' Association of Saskatchewan (IBAS) sought training to allow them to inspect child restraints and deliver accurate information on child safety to parents and caregivers.

Because of assistance from independent brokers with the child restraint campaign, new records for attendance were set. The free clinics were held in 73 Saskatchewan communities this year, more than three times the number of communities reached the year before. In total, 91 clinics were held across the province, where 2,718 car seats were checked. Last year, 29 clinics were held, with just over 1,700 car seats checked. Hopefully, we can beat these records in 2000.

As we look back, 1999 was a year with many challenges that dedicated staff and brokers faced head on. As we enter the 21st century, Saskatchewan can count on SGI CANADA to continue to deliver on its promise of providing excellent service and superior products at affordable rates.

Larry Fogg
President

AS WE LOOK BACK ON 1999, WE HAVE REASON TO BE PROUD OF ANOTHER GREAT YEAR OF SERVING SASKATCHEWAN.

SGI CANADA MARKED ITS 14TH CONSECUTIVE YEAR OF PROFITABILITY, WITH PROFITS OF $10.1 MILLION

- NOT QUITE AS HIGH AS EXPECTED, BUT NONETHELESS A YEAR TO BE PROUD OF.

A NUMBER OF FACTORS CONTRIBUTED TO THIS YEAR'S FINANCIAL RESULTS, INCLUDING LOWER INVESTMENT

EARNINGS, AN INCREASE IN THE VOLUME OF CLAIMS AND LOWER THAN ANTICIPATED UNDERWRITING RESULTS.

Overall, underwriting results were significantly lower than last year, with a net loss of $10.3 million. This corresponds with reports that the Canadian property/casualty insurance industry will experience its 21st consecutive year of underwriting losses.

Premiums written were consistent with 1998, bringing in $164.2 million, while claim and administrative costs were $174.2 million. The Home Pak product was greatly affected by storms and fires, while Auto Pak was affected by an increase in damage claims and an increase in reserves for injury claims from previous years.

Commercial claims were also higher than last year, partially due to reserving on prior years' claims. The fire in the town of Whitewood that resulted in the complete destruction of the curling and skating rinks also took a toll on Commercial Lines. While the commercial market is very competitive and rates are underpriced, SGI CANADA has managed to hold onto the majority of its business in this market.

Since we opened our doors in 1945, SGI CANADA has been committed to providing top-quality service for our customers. While we're at 93% in our most recent customer satisfaction surveys for processing general claims, we're always looking for ways to improve. In 1997, we set out specific targets for customer service, and we're working on meeting them. Initiatives include making initial customer contact within one day of receipt of the claim report and paying visits to all brokers in each claims area twice per year. Customer service training has also become mandatory for all staff, with underwriting and claims staff completing theirs in 1999.

Photo courtesy of The Whitewood Herald

Customer service initiatives have really paid off - both for SGI CANADA and Saskatchewan communities. The community of Whitewood sustained a major loss when a fire in October 1999 claimed their skating and curling rinks. Thanks to the efficiency of Whitewood Agencies and the excellent coverage provided by SGI CANADA, the $3.0 million claim is close to being settled and reconstruction of the centre is scheduled to begin in the very near future. Another major blow to Saskatchewan residents occurred in August when a severe hailstorm in Emerald Park resulted in nearly 900 property damage and vehicle claims totaling $2.8 million for SGI CANADA.

"This claim was bigger than anything we've ever handled, and things went pretty smoothly," said Ron Demofsky of Whitewood Agencies. "This is partly due to the good judgment exercised by the Town of Whitewood in purchasing policies to cover their losses in a situation like this. We've seen instances where other communities sustained a major loss, but didn't have adequate coverage. And that makes an unfortunate situation even worse. However, we're confident Whitewood will meet its goal and have the rinks up and running by October 2000."

Providing excellent service and superior products to our customers at affordable rates is a top priority at SGI CANADA. Many of our products have undergone improvements in past years. In 1999, changes were introduced to better meet customer needs, including an all-risk coverage option with Agro Pak; a 10% discount for those aged 50 and over on Home Pak, Condo Pak and Agro Pak; and, replacement cost coverage for leased vehicles. We will continue to adjust products to meet customer needs into 2000 and beyond, including pricing and coverage changes for Personal Lines products.

Ron Demofsky (right) and Clint McConnell with floor plans for the new arena.

Independent brokers are the cornerstone of the insurance industry in Saskatchewan. Our network of independent brokers in Saskatchewan, Manitoba and Ontario largely determines SGI CANADA's success. Their commitment to providing cost-effective and customer-oriented services has allowed SGI CANADA to grow into the diverse and expanded business that we are today.

We appreciate the cooperation we've received on many initiatives from the Insurance Brokers' Association of Saskatchewan (IBAS) - a voluntary organization of professional independent insurance brokers dedicated to maintaining superior standards in the province's insurance industry.

Their support of the 1999 SGI CANADA Charity Classic curling bonspiel contributed to the $32,000 we raised for KidSport Saskatchewan. Since 1993, the bonspiel has become our most successful charitable venture, raising a total of more than $100,000 for Saskatchewan charities. It's an accomplishment we couldn't have achieved without brokers' support.

It was really something we thought the community needed,"

said Caroline Mortenson of Mortenson Insurance and Financial Services. "And some families thought it was just as important as we did. They showed up with their entire families piled in their cars!"

The Aboriginal community in Saskatchewan is the fastest growing segment of the population and SGI CANADA is working hard to strengthen our ties with them.

Job opportunities with the Corporation are posted in Aboriginal communities along with information on training and education options for those jobs. As well, SGI CANADA assisted in setting up two on-reserve brokerages over the past five years, and we hope to help others in our efforts to expand our business across the province in the future.

We've been working to provide better information to Aboriginal people on safety and insurance issues, and we feel those efforts are beginning to show benefits for that community. Our latest vehicle to profile such information is *Safety, Security & SGI* – a newsletter designed specifically for Aboriginal people.

From the outset, we knew that it would be difficult to measure the success of this project through traditional means (i.e. surveys by mail or telephone). Currently, SGI CANADA relies on oral feedback through two representatives who travel to Aboriginal communities across Saskatchewan to share information about traffic safety and insurance. And so far, the feedback has been positive and very informative.

Through *Safety, Security & SGI*, we work to provide information on our insurance products to the public in a way that is more acceptable to them than our traditional formats, and also allows us to find out what kind of insurance coverage people in Aboriginal communities require. SGI CANADA representatives have also been meeting with First Nations leaders to discuss what types of coverage their communities require. As a result, our underwriting staff is in the process of designing products that are feasible for the company and that meet the needs of this segment of our population. Changes were made to Tenant P/L in 1999 with options for a lower minimum coverage, and we will look at changes to other products in the future.

We have also received a great deal of positive feedback on the ongoing series of Aboriginal-specific posters we have created, covering topics like snowmobile safety and product information.

In 1997, Aboriginal employees with SGI CANADA formed a committee group that has since evolved a reputation for direct community involvement in unique, multicultural events at work and in the community. The Aboriginal Employees Network (AAN) at SGI is dedicated to ensuring Aboriginal employees have access to training and job opportunities. The AAN also promotes cultural awareness at the workplace, and hosts events for all SGI employees. There are currently 25 members in the group. Pictured are AAN leaders James Ernst, Michelle Anderson and Debbie Lafond with one another. These women, about to take time out of their busy schedules to meet with us, are also active in their communities, and in many different ways. The AAN at SGI truly is a group to watch around the province.

SGI CANADA's subsidiary company, SGI CANADA Insurance Services Ltd. (SCISL), had its sixth anniversary in 1999 with much to celebrate. SCISL, which began writing business with four brokers appointed in Manitoba in 1993, has grown to 40 brokers in that province, and 10 brokers in Saskatchewan. In 1995, SCISL was licensed in Ontario, and there are now three brokers selling SCISL products there. SCISL has earned a reputation as a main competitor in the insurance market in Manitoba.

In 1999, SCISL contributed $6.4 million in premiums to SGI CANADA, producing underwriting profits of $70,000.

In 1999, the company conducted a major service survey of SCISL brokers to find out what it is doing right, as well as to identify areas where the company needs to improve.

The survey results were very positive, especially in categories that compared SCISL to the competition. For example:

of responding brokers indicated that SCISL was equal to or better than the competition in the areas of:
(1) courtesy of underwriting staff; (2) product knowledge of Commercial Lines staff; and (3) the quality of training provided to brokers.

of responding brokers indicated that SCISL was equal to or better than the competition in the areas of:
(1) product knowledge of Personal Lines staff; (2) responsiveness to market conditions for Commercial Lines; and (3) telephone service.

of responding brokers indicated that SCISL was equal to or better than the competition in the areas of:
(1) competitiveness of Personal Lines coverage; (2) policy turnaround for Commercial Lines; and (3) responsiveness to market conditions for Personal Lines.

The survey and its results are evidence of SCISL's commitment to its existing brokers, as well as to the establishment of new SCISL brokers. Developing these relationships is among the top priorities as the company enters a new millennium.

Commitment to the communities we do business in is an important aspect of business for SGI CANADA. Investing in our communities and becoming involved in local activities seems natural since we not only conduct business in this province, but we also live here. We take pride in our community-oriented initiatives.

The seventh annual SGI CANADA Charity Classic in October was an enormous success, with a highlight being the introduction of a separate women's division, featuring 12 of Canada's best women's teams. Together with 32 world-class men's teams and musical entertainment, among other attractions, the bonspiel drew record crowds in excess of 9,000.

Thanks to the support of our brokers, business partners and staff volunteers, we were pleased to present a cheque in the amount of $32,000 to KidSport Saskatchewan - a children's charity dedicated to improving the well-being of underprivileged children by providing them with the opportunity to achieve physical, social, intellectual and moral development through participation in sport.

Since 1993, the bonspiel has become our most successful charitable venture, raising more than $100,000 for Saskatchewan charities. Charities that have benefited in the past include the Saskatchewan division of the Multiple Sclerosis Society, the Saskatchewan Head Injury Association and the Children's Health Foundation.

We're pleased that the 2000 SGI CANADA Charity Classic will benefit the Kids Help Phone, Canada's only toll-free, national telephone counselling service for children and youth. The organization provides anonymous and confidential counselling, information and referral services in English and French, 24 hours a day, 365 days a year. Funds raised at the eighth Charity Classic will go to the Saskatchewan chapter of the Kids Help Phone.

As well, the 2000 Charity Classic promises to be bigger than ever, as it has been named a Canadian qualifying bonspiel featuring 64 of Canada's top men's curling teams.

In our continuing efforts to reduce crime throughout Saskatchewan, SGI CANADA partnered with the Saskatoon Police Service in 1998 to purchase a software program, designed and tested in Canada, that maintains a database of profiles of crimes and perpetrators. Based on details of the records, the program enables police to find links between crimes that may otherwise go unnoticed. SGI CANADA benefits from the investment because more crimes are solved. The software can make links between the crimes, such as time-of-day, items stolen, items left behind or details provided by witnesses. This latest investment in crime prevention demonstrates our commitment to building safer communities and controlling insurance costs.

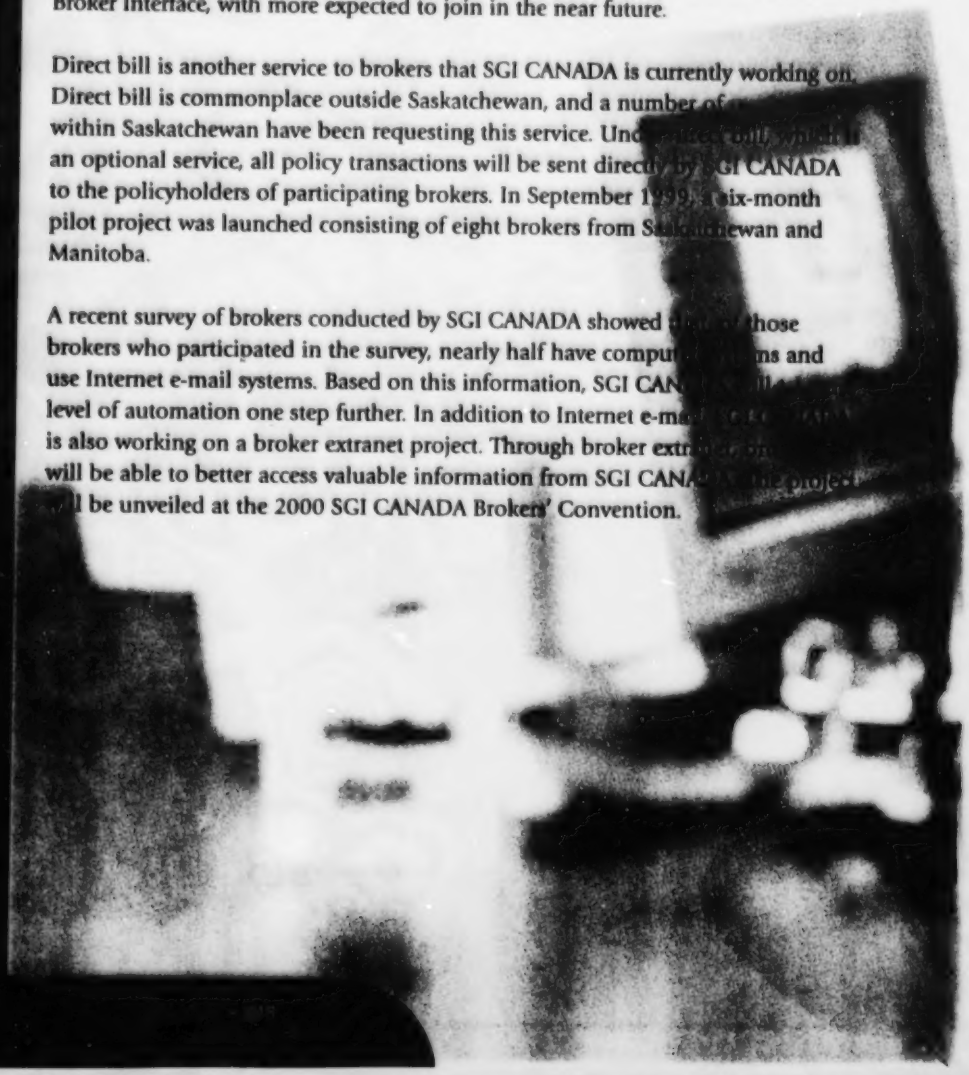
The insurance industry has managed to make great strides in the past 50 years thanks to new technologies. As we've witnessed at SGI CANADA, recent advancements have contributed to our efficient and superior customer service. We hope to continue this trend in the future as we explore new ways to make use of today's electronic tools.

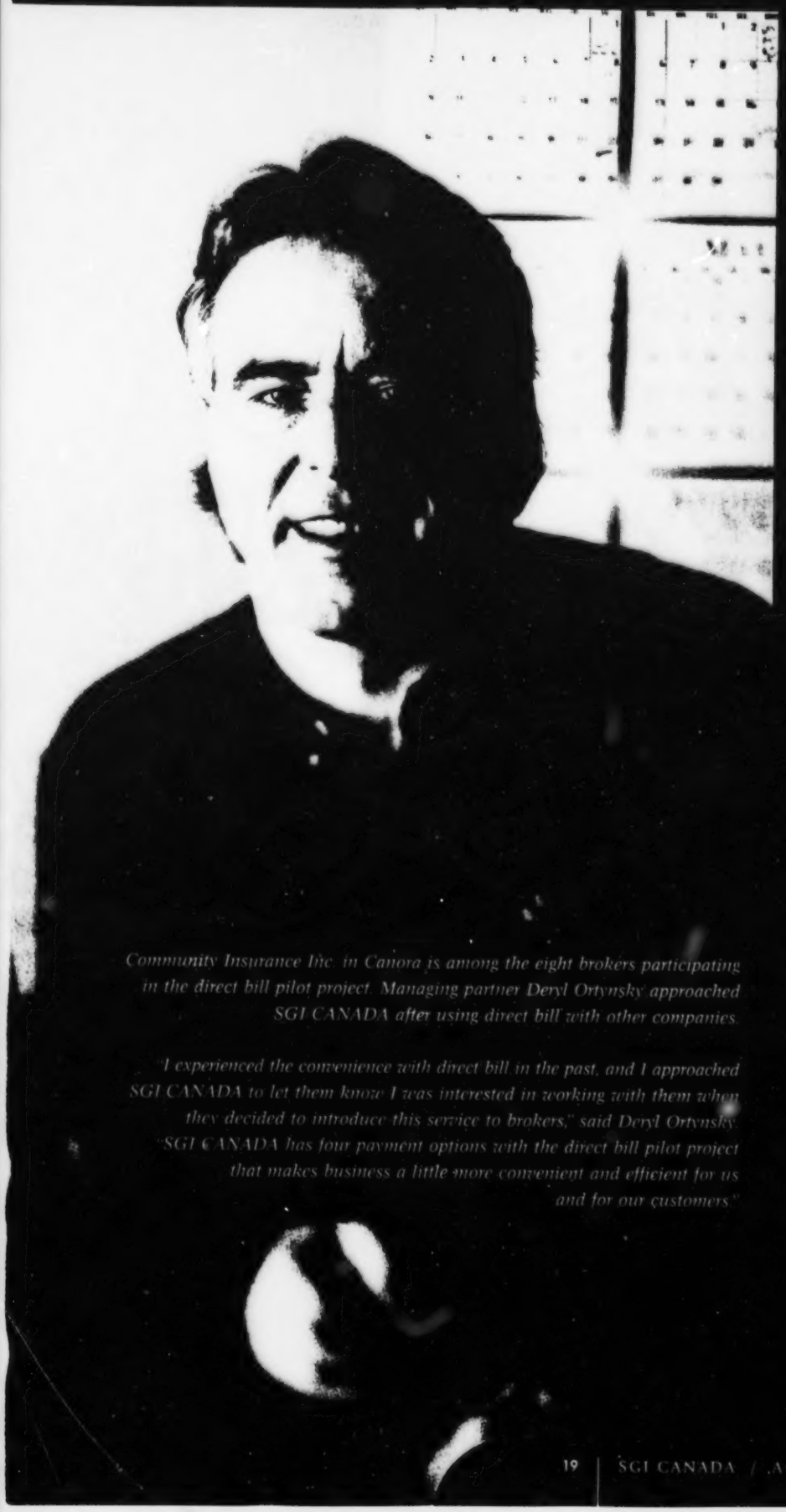
In the late 1970s and early 1980s, technologies like computers and facsimile allowed us to communicate in ways that were previously unimaginable. Building on these tools, we have developed unique technologies specific to our business needs.

For example, now that our state-of-the-art General Insurance System, or GIS, is fully implemented, we've been able to build on this technology to develop Broker Interface - a project that promises to be hugely beneficial for high to medium-volume brokers. The software allows brokers to download policies electronically, in addition to receiving the data in hard copy format. Advantages to using Broker Interface are information is readily available at an earlier date, and there is a time and cost savings for brokers since they are no longer required to key in the data themselves. There are 37 brokers in Saskatchewan and Manitoba participating in Broker Interface, with more expected to join in the near future.

Direct bill is another service to brokers that SGI CANADA is currently working on. Direct bill is commonplace outside Saskatchewan, and a number of [illegible] within Saskatchewan have been requesting this service. Under [illegible], which is an optional service, all policy transactions will be sent directly by SGI CANADA to the policyholders of participating brokers. In September 1999, a six-month pilot project was launched consisting of eight brokers from Saskatchewan and Manitoba.

A recent survey of brokers conducted by SGI CANADA showed that [illegible] those brokers who participated in the survey, nearly half have computer [illegible]ms and use Internet e-mail systems. Based on this information, SGI CANADA will take the level of automation one step further. In addition to Internet e-mail, [illegible] is also working on a broker extranet project. Through broker extranet, brokers will be able to better access valuable information from SGI CANADA. The project will be unveiled at the 2000 SGI CANADA Brokers' Convention.





Community Insurance Inc. in Canora is among the eight brokers participating in the direct bill pilot project. Managing partner Deryl Ortynsky approached SGI CANADA after using direct bill with other companies.

"I experienced the convenience with direct bill in the past, and I approached SGI CANADA to let them know I was interested in working with them when they decided to introduce this service to brokers," said Deryl Ortynsky. "SGI CANADA has four payment options with the direct bill pilot project that makes business a little more convenient and efficient for us and for our customers."

After more than half a century of excellent customer service and affordable products at competitive rates, SGI CANADA has an optimistic outlook for 2000. Recent technological advances will ensure that we stay competitive for years to come. And with the arrival of the Year 2000 without any problems, we now have resources to dedicate to other technological initiatives.

Despite success in recent years, we anticipate results in the years to come to be similar to 1999 for a number of reasons, including more 'normal' weather conditions, similar return on investment earnings in 2000 and a competitive insurance market.

However, we look forward to meeting whatever challenges the future may present, and overcoming them as we have in the past. We also look forward to strengthening our relationships with our most valued business partners - our independent brokers - who contribute much to our success.

SGI CANADA has undergone a lot of changes, but our goals and values have remained the same since 1945, and they will remain the same as we head into a new century.

Introduction

The information in this discussion and analysis should be read in conjunction with SGI CANADA's (the Corporation's) consolidated financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

The Corporation is a provincially-owned Crown corporation that conducts a property/casualty insurance business in the Province of Saskatchewan, competing with over 130 other insurers. SGI CANADA Insurance Services Ltd (SCISL), a subsidiary of SGI CANADA, sells insurance products in Manitoba and Ontario. SCISL was incorporated in 1990.

Overview of 1999

The consolidated net profit in 1999 of $10.1 million is down significantly from the record $31.1 million profit last year. Both underwriting results and investment earnings were down sharply in 1999. Increased claim costs for storm and fire-related claims, adverse development of reported claims and unreported claims from prior years exceeding the estimates, contributed to the reduced underwriting results. Investment earnings were lower primarily due to lower gains on the sale of bonds.

The Corporation completed the development of its insurance computer system in 1998 and in 1999 began developing several enhancements to improve the customer service it provides to brokers. A major development in 1999 was a direct bill system which was implemented on a pilot project basis. Based on input from the pilot project brokers, the system will be refined and implemented with brokers on a voluntary basis.

Underwriting

Insurance companies strive to achieve underwriting profits (premiums less claims and expenses) from their insurance operations. However, the industry as a whole has recorded underwriting losses every year since 1979, while SGI CANADA has recorded underwriting profits in six of the past 10 years. The Corporation follows a disciplined underwriting approach in order to achieve underwriting profitability, however, many insurance companies attempt to gain market share by underwriting at under-priced rates. The industry is currently very competitive and rates have been reduced to extremely low levels resulting in an underwriting loss of $10.3 million in 1999. The Corporation continues to emphasize customer service and realizing operating efficiencies in order to maintain its market share.

As mentioned, the Corporation's philosophy is to underwrite its products based on sound underwriting principles and to provide outstanding service to its customers. Property policies are underwritten based on prior claim experience and the condition and replacement value of the property. Automobile policies are underwritten based on the owner's and driver's prior claim experience and driving record.

Prior to 1986, the Corporation wrote a book of reinsurance assumed business. Reinsurance assumed is the process of accepting a portion of insurance risks from other insurance companies. While this business has not been written since 1985, some of the business is long-term in nature, and the costs are very unpredictable. Therefore, as more information becomes available on these claims, the Corporation has to adjust the reserves. When possible, the Corporation com-

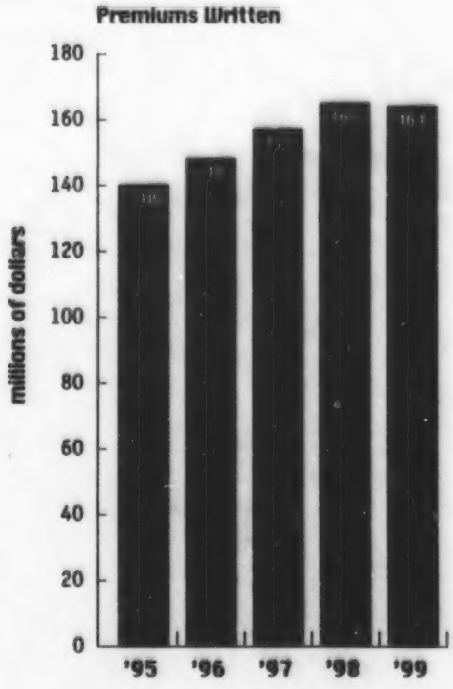
mutes portions of the assumed business, which eliminates all claims exposure. In 1999, the Corporation recorded a $1.1 million reduction in the remaining estimated costs for these claims, compared to an $8.8 million increase in 1998.

Premiums Written

Because of the extreme competitiveness in the markets that the Corporation operates in, consolidated premiums written were $164.2 million, a slight decrease over 1998 ($165.1 million). The decline was a result of reductions in commercial premiums and was partially offset by increases in personal business.

Claims Incurred

Consolidated claims incurred were $112.0 million in 1999, a $16.6 million increase over 1998. Storm claim costs in 1999 of $7.0 million were close to the long-term average. However, they were up considerably over last year's $0.5 million, contributing to the increase in overall claim costs. Also contributing to the increase was a rise in costs related to fire from personal, commercial and agriculture claims. Development on prior years' reported and unreported claims also significantly impacted the 1999 claim costs.

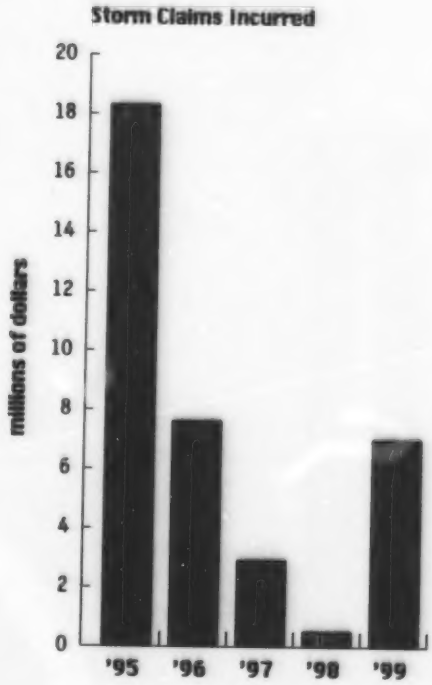


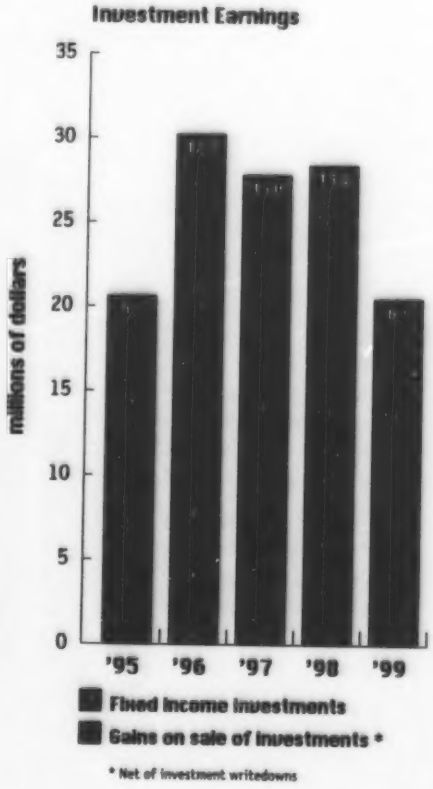
The Corporation establishes provisions for unpaid claims as they are reported. After they are established, as more information becomes available about the claim, the provision is adjusted. A provision is also established, with the assistance of an external actuary, for future development on reported claims and claims that have not yet been reported.

Determining the future development and unreported claims is based on historical claim experience and other factors such as future inflation expectations, court decisions and economic conditions. The provisions for claims that are paid out fairly quickly, such as property claims, are generally easier to determine than claims that take several years to settle, such as liability claims, which can be very difficult to predict. In 1999, development on prior year liability claims, and unreported liability claims from many years ago, had a significant impact on claims incurred.

Insurance regulators and the Canadian Institute of Actuaries (CIA) have different standards for discounting claim liabilities to recognize the time value of money. The Corporation follows the standard of insurance regulators, which only allows discounting of certain claim liabilities, while the CIA's standard requires discounting of all claim liabilities.

Expenses Excluding Claims Incurred
Commission expenses of $38.2 million are $0.8 million lower than last year. The decrease is due to lower costs for the



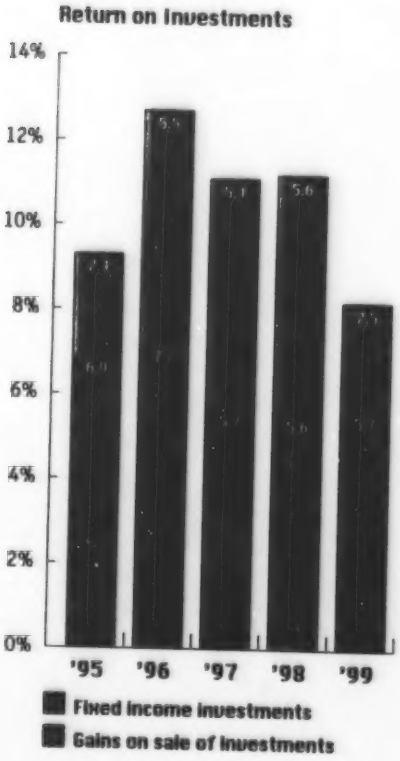


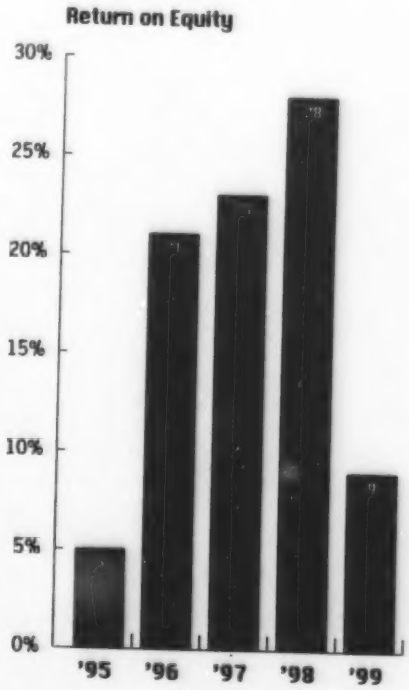
broker bonus program, which rewards brokers with favourable loss experience on the business they place with the Corporation. Because of higher loss experience in 1999, the cost of this program is lower than 1998. Administrative expenses and premium taxes are essentially the same as last year.

Investments

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations. Because a portion of these funds are held only for short periods, and because of the unpredictability of large cash outflows due to weather, an insurance company must take a more short-term investment approach compared to a pension plan, which invests its funds for longer periods. The Corporation records only the appreciation in market value of its investments on their sale, unlike pension plans, which are required to record their investments at market value. The unrealized gains in the investment portfolio at the end of 1999 are $24.8 million, compared to $28.8 million in 1998.

In 1999, consolidated investment earnings totaled $20.5 million, $7.9 million lower than last year. The decrease was primarily due to lower gains on the sale of investments.





Performance Measurement Ratios

Return-on-equity is a measurement of profit earned relative to the equity invested by the shareholders in the Corporation. The return on equity in 1999 was 9%, as compared to 28% in 1998. The decrease was due to higher claim costs and lower investment earnings. While industry results are not available for 1999, prior to 1999, SGI CANADA's pre-tax return-on-equity exceeded the industry nine out of the past 10 years.

Loss ratio is an insurance industry measurement expressing claims incurred as a percentage of premiums earned. The loss ratio on current operations increased in 1999 to 69% from 54% in 1998. Including the cancelled reinsurance assumed business, the overall loss ratio in 1999 was 68% compared to 59% in 1998.

The **combined ratio** is a measurement of total expenses (including claims) in relation to premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which would result in an underwriting profit. The Corporation's 1999 combined ratio is 106% compared to 98% in 1998.

Net risk ratio is an industry measurement, which is the ratio of net premiums written to equity, and gives some indication of a company's financial strength to support the insurance business that it writes. The lower the ratio, the better the insurance company's financial resources can withstand adverse underwriting results. The net risk ratio in 1999 is 1.6, which is unchanged from 1998.

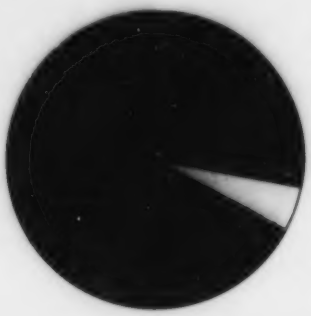
Reinsurance

Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are increasing the insurance company's capacity to write business and providing greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

The Corporation purchases a variety of proportional and excess reinsurance contracts that provide coverage on a per risk or per event basis to limit exposure from large single losses or catastrophic events. Reinsurers are carefully selected with an emphasis on continuity and long-term relationships. Solvency of reinsurers is paramount in this process.

Liquidity

Given the Corporation's reinsurance program to protect against major catastrophes and its liquid investment portfolio, the Corporation is confident there is sufficient cash to meet all financial obligations as they fall due. As well, the Corporation



Investment Portfolio as at December 31, 1999

- Bonds - 67%
- Equities - 17%
- Cash and treasury bills - 11%
- Other - 5%

has already financed a new computer system through internally generated funds and there is no need for any other material capital commitments in the normal course of operations. In 1999, cash inflows from insurance operations provided $18.1 million in cash compared to $23.4 million in 1998. As of Dec. 31, 1999, the Corporation's investment base is $259.5 million, consisting mainly of treasury bills, government and corporate bonds and common shares of Canadian companies.

Risk Management

The following issues and risks, among others, should be considered when evaluating the Corporation:

Catastrophe exposure

Property and casualty insurers are subject to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection which reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

To reduce the concentration of risk, the Corporation began expanding beyond Saskatchewan's borders in the early 90s. Through its subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), it was granted a licence in 1993 to sell insurance in Manitoba. It received an Ontario licence in 1995. Premiums from outside Saskatchewan now account for 4% of the premium base with the majority being from Manitoba.

Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles which may result in some reduction in premiums until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers and chartered banks.

Provision for unpaid claims

The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates, and the ultimate payment on these claims may differ from the estimate.

Investment returns

The majority of the Corporation's profit is derived from the investment portfolio. Returns from capital markets are uncertain and fluctuate from year to year. To mitigate the fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of three investment managers.

Each investment manager follows the guidelines established in the Investment Policy and Objectives, which provides

the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Finance and Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

Looking Forward

Results in 1999 were adversely affected by prior year development on reported and unreported claims. The provision for unpaid claims is very difficult to predict, particularly for unreported claims that are from many years ago. However, the Corporation is optimistic that the strengthening of its provision for prior year claims in 1999 will be sufficient to cover the cost of these claims in the future. By adequately reserving for prior year claims, future underwriting results will not be materially affected.

The current cycle in the insurance industry is at under-priced levels, particularly for certain types of business. The Corporation will withstand the cycle, as it has done many times in the last 50 years, by maintaining its underwriting standards, operating efficiently and providing outstanding customer service to its brokers and claim customers. Insurance companies that underwrite their products at a significant loss cannot maintain these rates in the long-term. As well, strong investment earnings that the industry had been realizing as a result of gains on the sale of investments and high bond yields have been decreasing over the last few years. Insurance companies relying heavily on their investment portfolio at the expense of sound underwriting practices, unlike SGI CANADA, will be in a difficult financial position.

Responsibility for Financial Statements

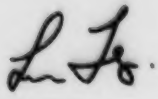
The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

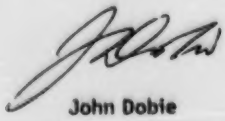
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President



John Dobie
Vice President
Finance and Administration

February 11, 2000

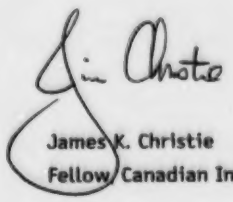
Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of Saskatchewan Government Insurance for its consolidated statement of financial position at December 31, 1999 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Common insurance regulatory practice requires that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice. The provision for unpaid claims carried by the company on the statement of financial position is $122,395,000 on a gross basis and $113,445,000 on a net basis. The provision for unpaid claims according to accepted actuarial practice is $117,244,000 on a gross basis and $109,073,000 on a net basis.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



James K. Christie
Fellow, Canadian Institute of Actuaries

February 11, 2000

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 1999 and the consolidated statements of operations and retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Regina, Canada

February 11, 2000

Consolidated Statement of Financial Position

	1998
	(THOUSANDS OF $)
Assets	
Cash and treasury bills (note 3)	$ 27,886
Accounts receivable (note 4)	36,494
Deferred policy acquisition costs	21,934
Unpaid claims recoverable from reinsurers (note 8)	8,950
Reinsurers' share of unearned premiums	3,650
Investments (note 5)	227,720
Net investment in capital lease (note 6)	3,925
Capital assets (note 7)	16,995
	$ 347,554
Liabilities	
Accounts payable and accrued charges	$ 7,858
Dividend payable	94
Premium taxes payable	6,706
Amounts due to reinsurers	2,991
Provision for unpaid claims (note 8)	122,395
Unearned reinsurance commissions	987
Unearned premiums	90,133
	231,164
Non-controlling interest	3,733
Province of Saskatchewan's equity	
Equity advances (note 9)	55,000
Retained earnings	57,657
	112,657
	$ 347,554
(see accompanying notes)	

	1998
	(THOUSANDS OF $)
	$ 20,742
	39,701
	21,544
	9,697
	3,496
	222,941
	4,105
	19,935
	$ 342,161
	$ 9,298
	2,994
	6,756
	4,175
	113,054
	925
	89,668
	226,870
	3,645
	55,000
	56,646
	111,646
	$ 342,161

Consolidated Statement of Operations and Retained Earnings

	1999	1998
	(THOUSANDS OF $)	
Premiums written	$ 164,183	$ 165,086
Premiums earned (note 10)	$ 163,872	$ 161,419
Claims incurred (note 10)	112,001	95,366
Commissions (note 10)	31,630	32,434
Premium taxes (note 10)	6,595	6,523
Administrative expenses (note 10)	23,962	24,163
Total claims and expenses	174,188	158,486
Underwriting profit (loss)	(10,316)	2,933
Investment earnings (note 11)	20,549	28,437
Net profit, before the following:	10,233	31,370
Income taxes	37	101
Non-controlling interest	88	188
Net profit	10,108	31,081
Retained earnings, beginning of year	56,646	53,538
Dividend	(9,097)	(27,973)
Retained earnings, end of year	$ 57,657	$ 56,646
(see accompanying notes)		

Consolidated Statement of Cash Flows

	1999	1998
	(THOUSANDS OF $)	
Cash provided by (used for) operating activities		
Net profit	$ 10,108	$ 31,081
Non-cash items:		
Amortization	3,619	3,953
Realized gain on disposal of investments and capital assets	(7,081)	(14,713)
Investment write down	960	881
Income attributable to non-controlling interest	88	188
Income from equity investment	(239)	(689)
Change in non-cash operating items:		
Accounts receivable	3,207	(2,783)
Deferred policy acquisition costs	(390)	(692)
Unpaid claims recoverable from reinsurers	747	(720)
Reinsurers' share of unearned premiums	(154)	597
Accounts payable and accrued charges	(1,440)	1,987
Premium taxes payable	(50)	345
Amounts due to reinsurers	(1,184)	(882)
Provision for unpaid claims	9,341	1,930
Unearned reinsurance commissions	62	(179)
Unearned premiums	465	3,068
	16,059	23,372
Cash provided by (used for) investing activities		
Purchases of investments	(287,931)	(259,569)
Proceeds on sale of investments	280,482	280,181
Repayment of capital lease	180	163
Purchases of capital assets	(334)	(1,230)
Proceeds on disposal of capital assets	42	48
	(7,561)	19,593
Cash used for financing activities		
Dividends paid	(11,998)	(46,887)
Decrease in cash and cash equivalents	(1,500)	(3,922)
Cash and cash equivalents:		
Balance, beginning of year	13,009	16,931
Balance, end of year	$ 11,509	$ 13,009
Plus treasury bills greater than 91 days to maturity from acquisition date	$ 16,377	$ 7,733
Cash and treasury bills per statement of financial position	$ 27,886	$ 20,742

(see accompanying notes)

December 31, 1999

1. Status of the Corporation

Saskatchewan Government Insurance (the Corporation) was established as a branch of the Public Service by the Government of Saskatchewan Insurance Act, 1944, reorganized pursuant to the Saskatchewan Government Insurance Act, 1946, and continues under the provisions of the Saskatchewan Government Insurance Act, 1980.

The Corporation conducts a property/casualty insurance business in the Province of Saskatchewan under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund (the Fund) under the provisions of the Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan, 1978).

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the financial results of the Corporation are included in the consolidated financial statements of CIC. The Corporation is a provincial Crown corporation and as a result is not subject to federal or provincial income taxes. The Corporation's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), which operates in provinces other than Saskatchewan, is subject to federal and provincial income taxes.

2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with generally accepted Canadian accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its 53% owned subsidiary, SCISL. All intercompany accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares and pooled funds are recorded at cost. Investments are written down when there is a decline in value that is other than temporary. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of settlement.

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies. The investment is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Corporation's share of the hail business earnings or losses and reduced by cash received.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	$2\frac{1}{2}\%$
Computer hardware, system costs and other equipment	$20 - 33\frac{1}{3}\%$

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year-end. Share investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. Cash and Treasury Bills

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 5.0% (1998 – 5.0%). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, or R-2 high for Canadian grain companies, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. Accounts Receivable

Accounts receivable is comprised of the following:

		1998
	(THOUSANDS OF $)	
Due from brokers	$ 19,916	$ 20,716
Financed premiums receivable	11,141	10,123
Due from reinsurers	1,685	2,696
Accrued investment income	1,482	1,765
Due from the Fund	–	2,367
Other	2,270	2,034
Total accounts receivable	$ 36,494	$ 39,701

5. Investments

The components of the Corporation's investments are as follows:

			1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(THOUSANDS OF $)			
Bonds and debentures	$ 127,823	$ 125,588	$ 121,392	$ 125,397
Pooled bond fund	46,387	46,378	45,171	48,916
Common shares	31,852	52,796	32,194	49,452
Pooled equity fund	10,507	16,607	9,912	13,619
Mortgages	7,658	7,642	11,018	11,074
	224,227	$ 249,011	219,687	$ 248,458
Investment in crop hail insurance	3,493		3,254	
Total investments	$ 227,720		$ 222,941	

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. A minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

			1998	
Term to Maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
	(thousands of $)			
Government of Canada:				
After one through five	$ 28,948	5.8%	$ 39,225	5.5%
After five	55,541	5.8%	39,988	5.1%
Canadian provincial & municipal:				
One or less	804	5.3%	–	–
After one through five	7,078	5.7%	9,995	5.9%
After five	12,588	6.1%	10,624	6.0%
Canadian corporate:				
One or less	474	6.1%	–	–
After one through five	11,404	6.2%	7,520	5.7%
After five	10,986	6.9%	14,040	7.1%
Total bonds & debentures	$ 127,823		$ 121,392	

Included in bonds and debentures above are bonds denominated in United States dollars with a carrying value of $2,085,000 (1998 – $1,993,000). Principal and interest is receivable on a semi-annual basis in United States dollars. In order to minimize the risk of foreign exchange fluctuations, the Corporation has hedged this risk by purchasing United States dollar forward exchange contracts.

(ii) Pooled bond fund:

The Corporation owns units in a pooled bond fund which has no fixed interest rate and its returns are based on the success of the fund manager and future interest rates.

(iii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.0% (1998 – 2.0%).

Common shares include $6,283,000 (1998 – $6,130,000) denoted in United States dollars.

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(iv) Pooled equity fund:

The Corporation owns units in a pooled equity fund which has no fixed interest rate and its returns are based on the success of the fund manager.

(v) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 6.9% (1998 – 7.9%) with an average maturity of 3.2 years (1998 – 1.6 years). Principal and interest is receivable on a monthly basis.

6. Net Investment in Capital Lease

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring March 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all of the benefits and risks incident with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

		1998
	(THOUSANDS OF $)	
Total minimum lease payments receivable ($584,000 per year)	$ 6,560	$ 7,144
Unearned income	(2,635)	(3,039)
Net investment in capital lease	$ 3,925	$ 4,105

The fair value of the net investment in the capital lease is $4,497,000 (1998 – $4,926,000).

7. Capital Assets

The components of the Corporation's investment in capital assets, as well as the related accumulated amortization, are as follows:

				1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(THOUSANDS OF $)			
Land	$ 912	$ –	$ 912	$ 912
Building	18,888	9,625	9,263	9,737
Computer hardware, system costs and other equipment	13,151	6,331	6,820	9,286
Total	$ 32,951	$ 15,956	$ 16,995	$ 19,935

Amortization for the year is $3,201,000 (1998 – $3,165,000).

8. Provision for Unpaid Claims

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled as all the necessary information may not be available at the balance sheet date.

There are a number of factors used to estimate the provision, such as the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claims severity and claims frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risks that the actual results may differ materially from the estimates.

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $17,871,000 (1998 – $24,585,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims in 1999 and 1998 are as follows:

	1999	1998
	(THOUSANDS OF $)	
Net unpaid claims – beginning of year	$ 103,357	$ 102,147
Payments made during the year relating to prior year claims	(34,857)	(34,669)
(Excess) deficiency relating to prior year estimated unpaid claims:		
Direct business	6,161	(8,192)
Reinsurance assumed business	(1,104)	8,844
Net unpaid claims for claims of prior years	$ 73,557	$ 68,130
Provision for claims occuring in the current year	39,888	35,227
Net unpaid claims – end of year	$ 113,445	$ 103,357

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	1999			1998		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
	(THOUSANDS OF $)					
Automobile	$ 54,974	$ 3,898	$ 51,076	$ 48,313	$ 1,708	$ 46,605
Property	26,016	4,097	21,919	22,434	7,087	15,347
Liability	23,534	955	22,579	17,722	902	16,820
Assumed	17,871	–	17,871	24,585	–	24,585
Total	$ 122,395	$ 8,950	$ 113,445	$ 113,054	$ 9,697	$ 103,357

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Underwriting Policy and Reinsurance Ceded

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss of the following:

		1998
	(THOUSANDS OF $)	
Dwelling and farm property	$ 350	$ 250
Unlicensed vehicles	500	250
Commercial property	1,000	1,000
Automobile and general liability	750	750
(subject to filling an annual aggregate of)	750	750
Property catastrophe	7,500	7,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

		1998
	(THOUSANDS OF $)	
Premiums earned	$ 11,175	$ 12,091
Claims incurred	5,629	9,692
Commissions and premium taxes	1,264	1,418
Administrative expenses	799	883

11. Investment Earnings

The components of investment earnings are as follows:

		1998
	(THOUSANDS OF $)	
Interest and dividends	$ 13,755	$ 13,486
Realized gain on sale of investments	7,112	14,723
Income from capital lease	403	420
Income from crop hail insurance investment	239	689
Investment write down	(960)	(881)
Total investment earnings	$ 20,549	$ 28,437

12. Superannuation Plans

The Corporation has a defined benefit pension plan for certain of its employees which has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 1996.

Based on the Dec. 31, 1996 actuarial valuation and a projection to Dec. 31, 1999, the present value of accrued pension benefits attributed to services rendered, including a provision for uncommitted ad hoc benefit increases, and the value of pension fund assets is $47,942,000 (1998 - $47,666,000) and $51,064,000 (1998 - $48,482,000) respectively. The accrual for pension costs is $3,056,000 (1998 - $2,736,000). The actuarial present value of the accrued pension benefits is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. This estimate therefore involves risks that the actual amount may differ materially from the estimate.

The Corporation also has employees who are members of the Capital Pension Plan. The Corporation's financial obligation is limited to matching employee contributions to this defined contribution pension plan.

The 1999 pension expense for the two pension plans is $3,261,000 (1998 - $3,271,000), including the amortization of the defined benefit plan past service surplus and plan amendments.

13. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end, are as follows:

		1998
	(THOUSANDS OF $)	
Cash and treasury bills	–	$ 2,969
Deferred policy acquisition costs	$ 3,374	3,363
Investments	1,656	1,656
Dividend payable	94	2,994
Premium taxes payable	6,571	6,663
Provision for unpaid claims	1,162	160
Unearned premiums	988	801
Premiums written	2,371	2,129
Premiums earned	2,387	2,326
Claims incurred	1,742	723
Premium taxes	6,561	6,525
Administrative expenses	1,689	1,625
Investment earnings	97	153

The Corporation acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Fund were $66,920,000 (1998 - $74,336,000) and accounts payable are $230,000 (1998 accounts receivable - $2,367,000).

Other related party transactions are described separately in the notes.

14. Fair Values

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable and accrued charges
(d) dividends payable
(e) premium taxes payable
(f) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:

(a) bonds and debentures
(b) pooled bond fund
(c) common shares
(d) pooled equity fund

(iii) Mortgages

The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(iv) Net investment in capital lease

The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(v) Provision for unpaid claims and unpaid claims recoverable from reinsurers

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

15. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occured, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers or other third parties, have been fully resolved.

16. Subsequent Event

On Feb. 9, 2000 the Board of Directors approved a dividend of $22.0 million.

17. Comparative Financial Information

For comparative purposes, certain 1998 balances have been reclassified to conform with the 1999 financial statement presentation.

In Memoriam

RICK SOFTLEY, Major Loss Adjuster II, Saskatoon Central Claims, worked very hard during his 23 years with SGI. He was never a quitter and could be counted on to do more than his share when things became difficult. Rick passed away May 26, 1999 at the age of 50.

DAVE WALKER, Truck Driver, Moose Jaw Salvage, spent most of his 25 years with SGI on the road, gathering parts from various garages and shops. Spending most of his time out of the office earned him a reputation for being a hard worker. Dave passed away Aug. 22, 1999 at the age of 50.